



Office of Health Plan Administration
P.O. Box 720724
Sacramento, CA 94229-0724
(916) 795-2515; FAX (916) 795-4105

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AGENDA ITEM 5

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** 2006 First Quarter Self-Funded Plans Financial Report
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

Background

The purpose of this report is to provide the Board with an update on the status of the financial reserves for the self-funded health plans. This report covers the first quarter of 2006 (ending March 31, 2006).

Anticipated Experience Due to Reserve Draw-down

A portion of the excess reserves were used to reduce the 2005 and 2006 premiums. As a direct result of this approach, the loss ratio for the entire year is expected to exceed 100%. At the end of the first quarter, the overall loss ratio combined for the self-funded health plans was 99%. This resulted in a small underwriting gain of \$1.2 million. The first quarter produced results in line with expectations taking into consideration that this starts the second year of the draw-down of reserves. Assets above the actuarial reserve requirements, as of the end of the 1st quarter, were \$169 million.

The Supplement to Medicare plans continue to have loss ratios above break-even. PERS Choice Supplement had a loss ratio of 110% while the PERSCare Supplement had a loss ratio of 111%. The Supplement to Medicare plans generally experience their highest claim volume early in the year as Medicare deductibles are paid for by the Supplemental plans. The Basic plans tend to gradually increase in cost throughout the year due to the gradual effect of aging and inflation. Consequently, it is expected that the Supplemental plans will experience a slight gain in subsequent quarters, while the Basic plans will experience a loss in subsequent quarters.

The following attachments provide more detailed financial and trend information.

Attachment 1

This attachment displays summary results for the first quarter of 2005 and 2006 as well as the prior two years. Although the Supplemental plans continue to have high loss ratios (111% for PERSCare and 110% for PERS Choice), this represents a decrease

from the prior year. This was expected due to the use of surplus combined with the Medicare effect where Supplemental plans generally experience their highest claim volume early in the year as Medicare deductibles are paid for by the Supplemental plans.

The most notable development is the continued higher than expected rolling 12-month medical trend of the PERS Choice Basic plan. The PERS Choice Basic plan trend continues to escalate, primarily due to the increase in large (over \$50,000) claims. Staff continues to work with our third party administrator to monitor these claims to look for opportunities to reduce costs through the use of intensive case management.

Attachment 2

This attachment presents the per-member-per-month (pmpm) medical and pharmacy claims costs for five quarters beginning with the first quarter of 2005.

The PERS Choice Basic plan had an increase in year-to-year medical costs of 18% - from \$190.51 pmpm to \$224.28 pmpm. This is higher than expected as the other three plans are increasing by only 8.2 to 9.9%.

It should be noted that pharmacy claims stayed consistent with an 11-12% increase in pmpm across all four plans. This is a 3-4% increase in pmpm year-to-year pharmacy costs over the fourth quarter of 2005.

Attachment 3

This attachment presents asset values and asset changes for the self-funded health plans.

The overall reserve requirement increased by \$23.8 million (line 17 minus line 16). Almost all (\$19.8 million) of this increase came from the PERS Choice Basic plan (line 11 minus line 10). As of March 31, 2006, total Program assets (line 15) exceeded the actuarial reserve (line 17) by over \$169 million. Although the PERS Choice Supplemental plan assets (line 12) exceed the actuarial reserve by only \$3.8 million, overall the asset level continues to be positive.

Attachment 4

This attachment highlights the relative strength of the assets compared to the actuarial reserve.

The overall level of the assets in the self-funded health plans remain strong. The first quarter asset levels met expectations. The PERS Choice Supplement plan assets above actuarial reserves continue to decrease. The surplus in the PERS Choice Supplement plan has decreased from \$17 million in the first quarter of 2005 to \$3.8 million in the current quarter currently. Staff is closely watching this trend.

Attachment 5

This attachment shows the overall enrollment trend for the four self-funded health plans.

The PERSCare Basic plan enrollment continues to decline (decreased by 1383 total covered lives from December 2005 to March 2006), which places this plan at a greater risk of volatility. Because of the small number of total covered lives in this plan (23,485 as of March 2006), relatively few adverse situations can have an inordinate effect on the plan's financials.

Even though the PERSCare Basic plan's financial situation remains strong at this time, staff, working with input from actuarial consultants, continues to monitor this situation.

Looking Forward

The overall financial position of the self-funded health plans remains strong. The ongoing positive financial results for the program assets provide assurance that the rates approved by the Board for the 2006 plan year will be sufficient to fund benefits and to maintain adequate reserves.

V. STRATEGIC PLAN:

This directly relates to Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VI. RESULTS/COSTS:

This item is presented as information only.

Richard J. Krolak, Chief
Office of Health Plan Administration

Terri Westbrook
Assistant Executive Officer
Health Benefits Branch

Attachments